



Foreign Agricultural Service

GAIN Report

Global Agriculture Information Network

Voluntary Report - public distribution

Date: 10/24/2002

GAIN Report #CH2831

China, Peoples Republic of

Market Development Reports

Up River: Market Potential in Wuhan

2002

Approved by:

Scott S. Sindelar

US Consulate General, Shanghai

Prepared by:

Nathaniel Aden

Report Highlights:

China's inland, secondary city markets offer unique opportunities to American agricultural producers. ATO staff flew to Wuhan on the morning of September 24 to assess the feasibility of conducting a retail and/or HRI promotion there as part of ATO Shanghai's westward expansion up the Yangze River valley. As the coastal markets of Beijing, Shanghai, and Guangzhou develop a higher concentration of foreign food products, American producers are looking to secondary city emerging markets for new growth opportunities.

Includes PSD changes: No
Includes Trade Matrix: No
Unscheduled Report
Shanghai ATO [CH2], CH

ATO staff flew to Wuhan on the morning of September 24 to assess the feasibility of conducting a retail and/or HRI promotion there as part of ATO Shanghai's westward expansion up the Yangze River valley. As the coastal markets of Beijing, Shanghai, and Guangzhou develop a higher concentration of imported foreign food products, American producers are looking to secondary city emerging markets for new growth opportunities.

China's inland city markets offer unique opportunities to American producers. In many instances, it is the undeveloped aspect of inland markets that create these opportunities. The relative lack of private sector investment, for example, has led a state owned enterprise mentality to overlap with rising and increasingly differentiated wages. Disposable income is rising disproportionately as the state continues to provide free or discounted housing and medical care.

Wuhan, the capital of Hubei Province, epitomizes many of the potential opportunities of China's developing, inland markets. The city of 7.6 million is building on its strategic location at the confluence of the Yangtze and Han rivers by upgrading local infrastructure and providing SEZ-style incentives to foreign investors. Meanwhile, the average Wuhan consumer spends an astounding 63% of their income on retail goods (approximately 8,200 RMB per capita).

The secondary city dynamic is illustrated in a comparison between Qingdao, a vibrant port town of Shandong province, with Wuhan. Although Qingdao's 7.2 million people have 16% higher average per capita income than Wuhan, they spend only 23% of it, or 3,600 RMB per capita, on retail goods. As distribution and logistics networks improve to enable the introduction of American products at competitive prices, secondary cities' heavy emphasis on retail consumption presents what will likely be a short lived opportunity to gain shares of these fresh new markets.

It is clear that foreign and domestic retailers have also observed the secondary city consumer dynamic. Indeed, Wuhan already has two Metro warehouse supermarkets, two Carrefours, one Price Mart, one B&Q, and one Shanghai Good Home, among other retailers. By virtue of their membership-only, warehouse arrangement, Metro has positioned itself to supply the HRI sector. While the regular consumer-oriented retail sector is growing voraciously, HRI often serves as a vehicle for introducing high value American products such as beef, seafood, and wine.

In order to gauge the relative benefits of these sectors in Wuhan, ATO staff interviewed general managers at both Metro and Carrefour. Both stores were interested in conducting promotions with ATO early next year. While each store already carries select American snack foods and other imported food products, ATO staff observed room for expansion, particularly among wine, meat, potato, and seafood products.

Inadequate supply and burgeoning middle class consumption in Wuhan indicate that the city is ready for a preliminary HRI and/or retail promotion. ATO Shanghai will now consult suppliers and cooperators to determine the sectoral focus, breadth, and timing of this upcoming activity. While dried fruit and nuts have been introduced directly to retail consumers, wine and other high value products usually need to be prepared and given a more complete introduction (in local restaurants and hotels) before they are purchased directly. Thus supplier and cooperator interest will largely determine ATO's decision between Carrefour and Metro.